Public Debt Profile

Expert Group Meeting on Public Debt and Sustainable Financing in Asia and the Pacific

Session 2

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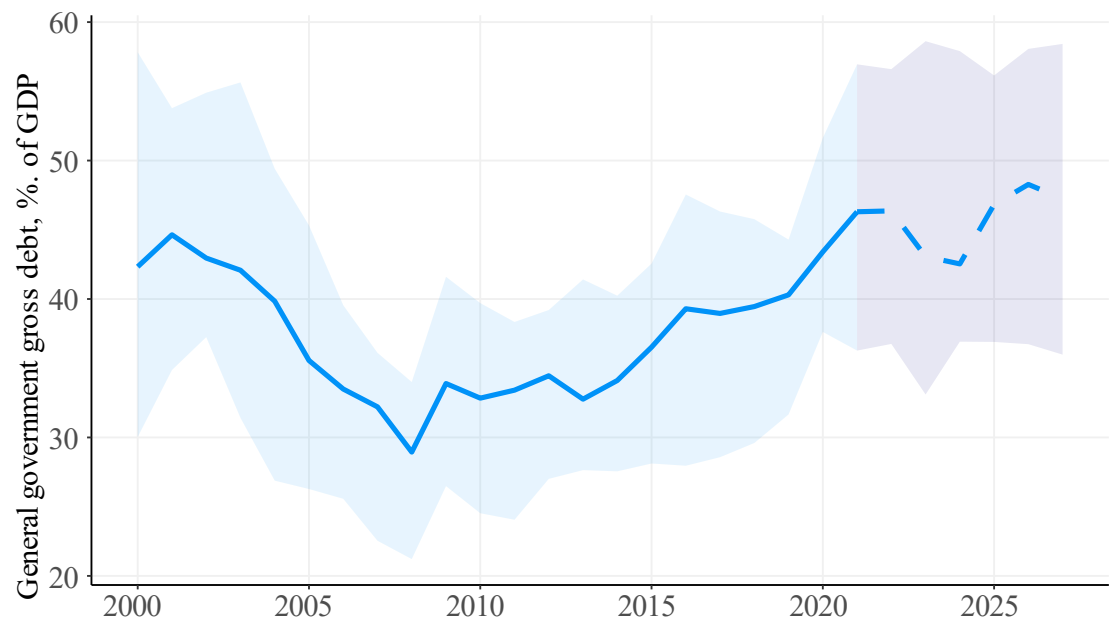Macroeconomic Policy and Financing for Development Division
ESCAP

Context and objective

- Asia and the Pacific was lagging in the progress towards Sustainable Development Goals (SDGs).

- ESCAP estimated that additional investment needs of $1.5 trillion are required per year to allow Asia-Pacific developing economies to achieve the SDGs by 2030, which may put public debt sustainability of some economies at risk.

- Public debt has risen since 2008 across all Asia-Pacific subregions. The pandemic further pushed up the region's median government debt level to a 13-year high of 47.8% of GDP in 2021.

- This chapter takes stock of public debt profiles, including the recent trend of public debt, the key drivers of these changes, and further zooms in to the domestic and external debt breakdown.

- This chapter will present some shared debt characteristics of countries rated at high risk of debt distress, measured by Joint World Bank-IMF Debt Sustainability Analysis for low-income countries and given low credit ratings by credit rating agencies for countries with market access.

Public debt has risen since 2008 across all Asia-Pacific subregions

The U-Shape Pattern of general government gross debt from 2000

General government gross debt, %. of GDP

60
50
40
30
20

2000   2005   2010   2015   2020   2025

General Government Gross Debt (%of GDP)

Region ● ENEA ● NCA ● PICs ● SEA ● SSWA

80

60

40

20

0

2000   2005   2010   2015   2020   2025   2030

Source: IMF, World Economic Outlook (WEO)
Notes: The line is the median debt level of ESCAP economies including developed countries, and the 95% confidence interval is shown in the blue shade. Dashed lines and the purple shade are projected debt levels. Data of Cook Islands, Palau, and People's Republic of Korea are not available.
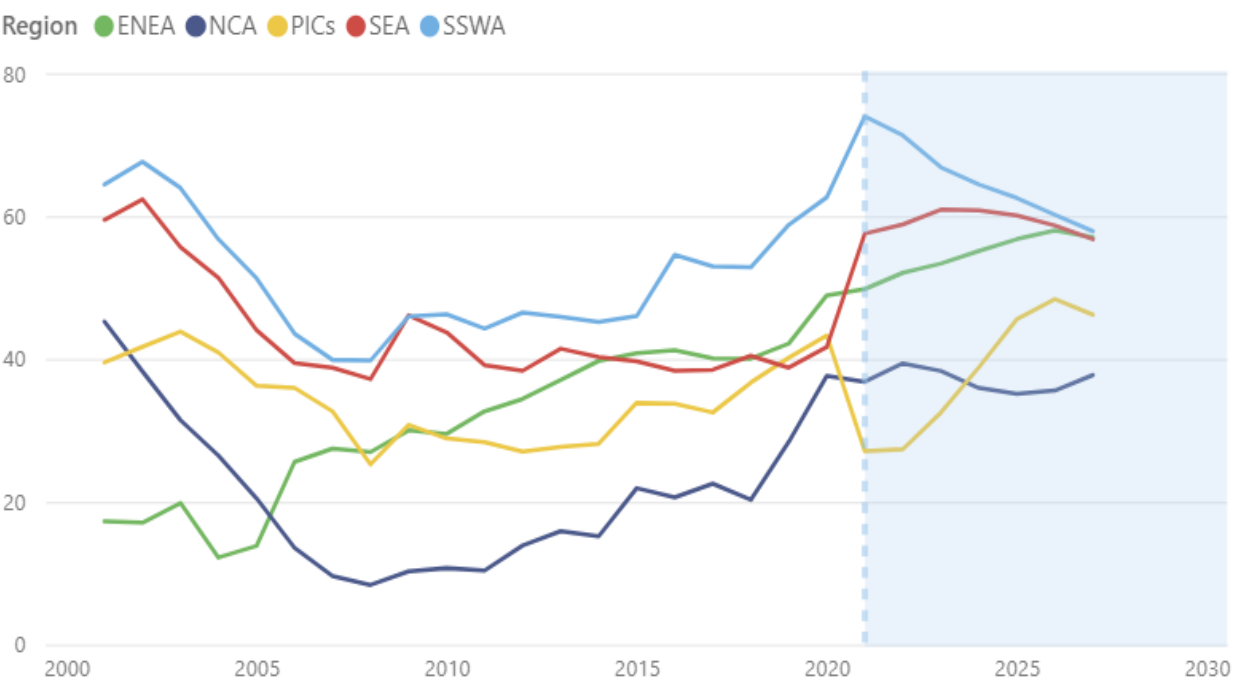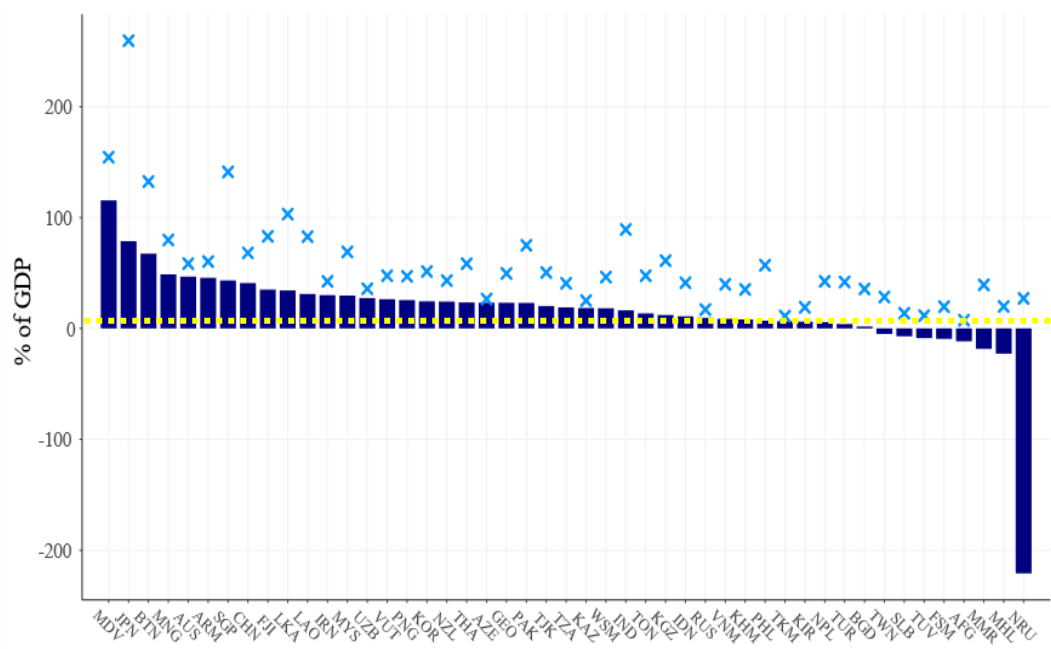
Source: IMF, World Economic Outlook (WEO)
Note: Developed countries are not included. The lines are the median values of each subregion

Over 2/3 economies had public debt increased over 10% of GDP, with real GDP growth and primary deficit being the two main drivers

Current public debt levels and changes in public debt since 2008

Average Contribution to Changes in Public Debt, since 2008

Source: IMF, World Economic Outlook (WEO)

Notes: The blue bars are the difference between current debt level (year 2020 or 2021 depending on data availability) and that in 2008. Blue crosses denote current debt level. Countries with debt change less than 10% and current debt level less than 10% are excluded in the chart, which are Brunei, Hongkong, Macau, and Timor-Leste
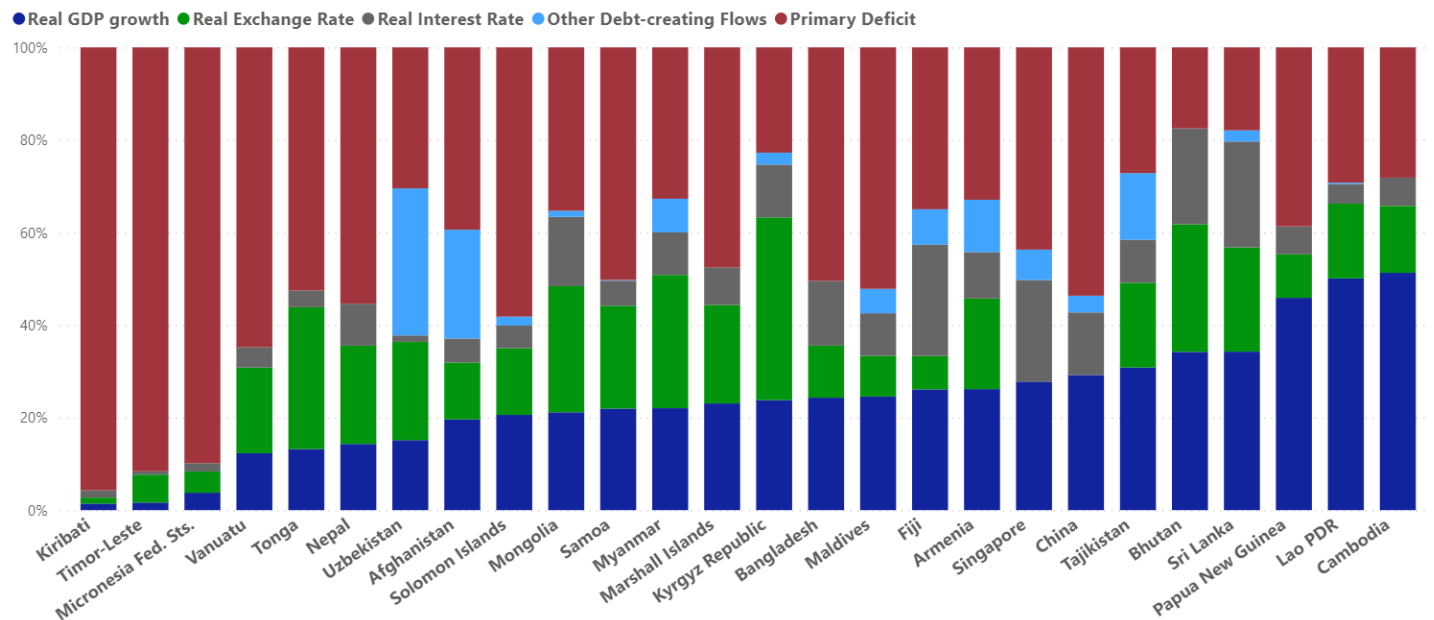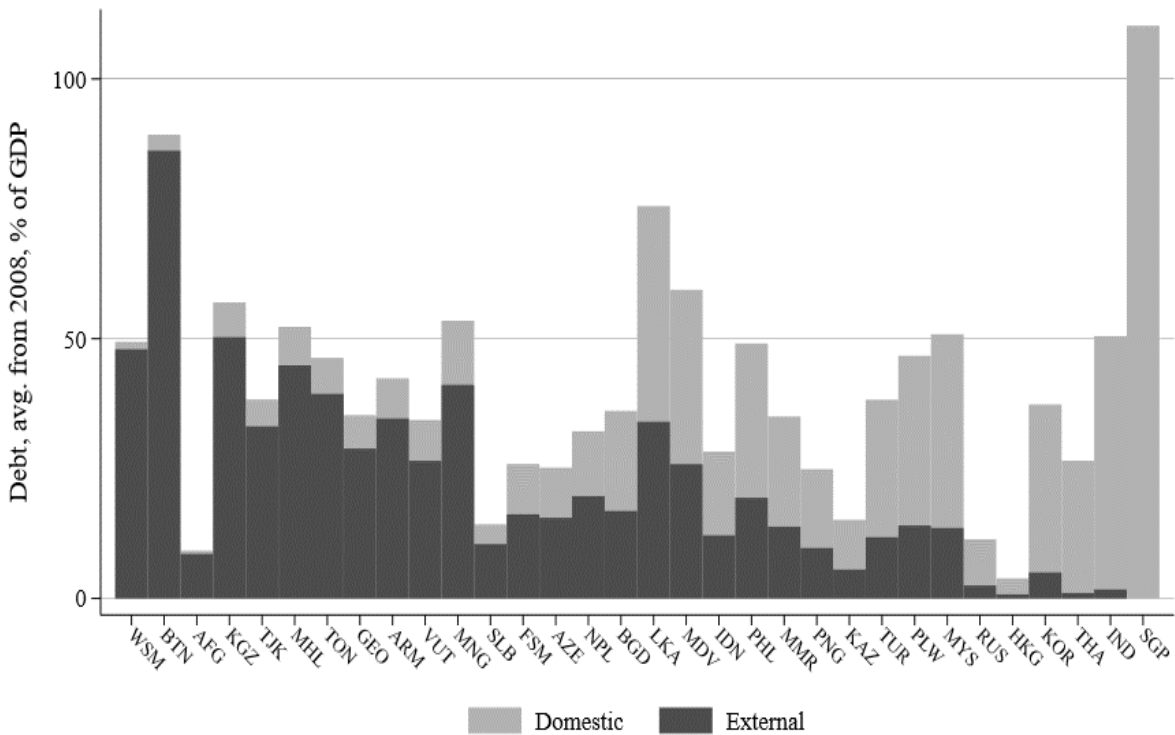
Source: World Bank, Debt Management Monitor (DMM)

Notes: 2/6 = 33.3%. Countries with debt change < +/- 5% since 2008 are excluded. The contribution of primary deficit in Kiribati comes from its volatile balancing condition, which ranging from over 47.06% of GDP surplus in 2015 to 22.17% of GDP deficit in 2019. This volatility is the result of the decreasing ability of sovereign funds to stabilize primary balance.

Half of the developing Asia Pacific economies rely heavily on external debt from bilateral and multilateral creditors

Public debt breakdown by domestic and external creditors, average value between 2008 and 2020


Major creditors of public external debt in 2020

Source: World Bank, International Debt Statistics (IDS), Debt Management Monitor (DMM); IMF, Government Financial Statistics (GFS)
Notes: The Chart shows the average domestic and external debt to GDP from 2008. PPG debt data from IDS are used whenever possible. If such data is not available, the same variable is taken from DMM. In case both sources do not have data, central government debt from GFS is used.
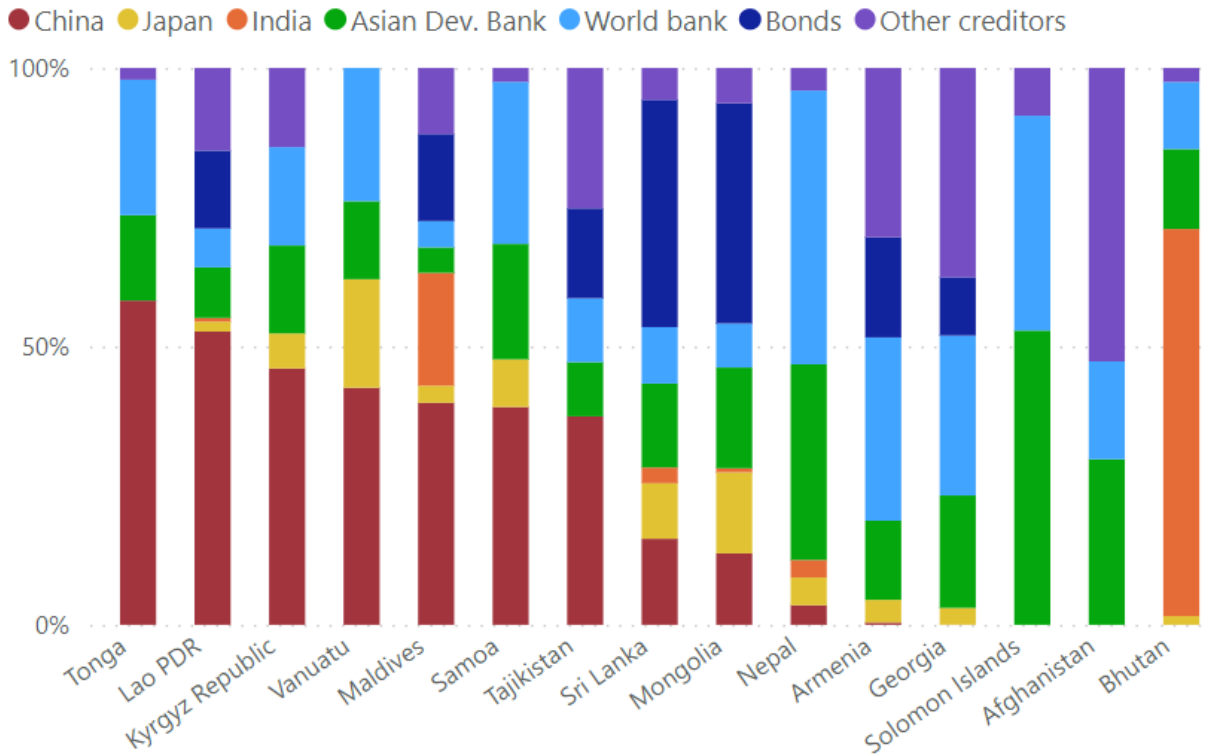
Source: World Bank, International Debt Statistics (IDS)
Notes: Countries are selected with either highest external debt levels (% of GDP, top 10) or largest shares of external debt in total debt (top 10).
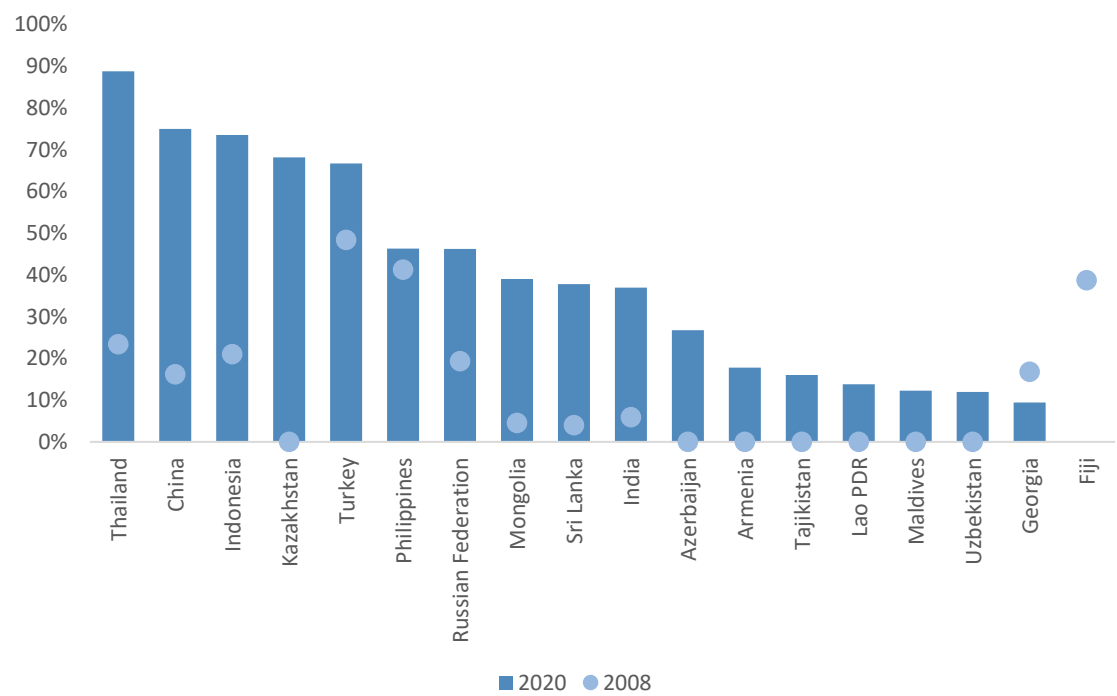
USD denominated debt still accounts for over 70% of external debt in 2/3 economies

Government debt currency exposure

● U.S. dollars ● Euro ● Japanese yen ● Others
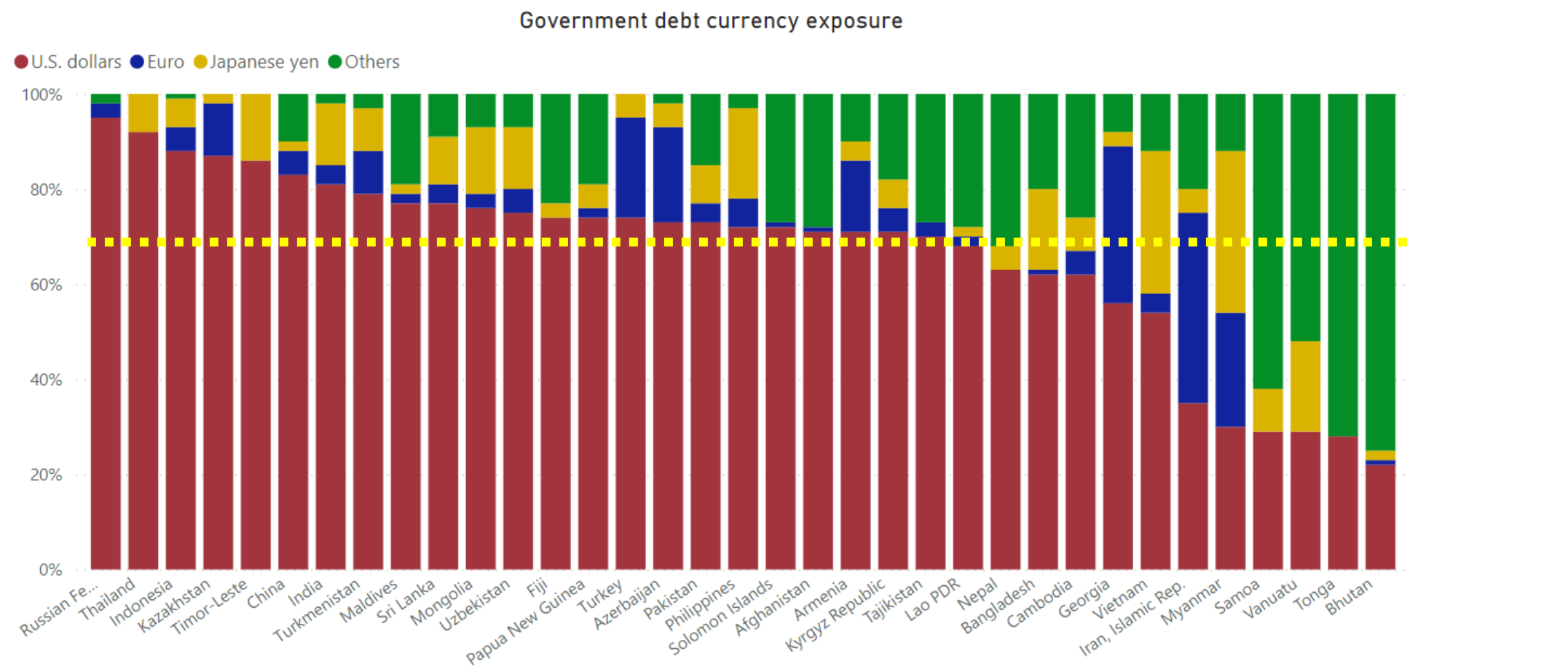
Source: World Bank, International Debt Statistics, 2020
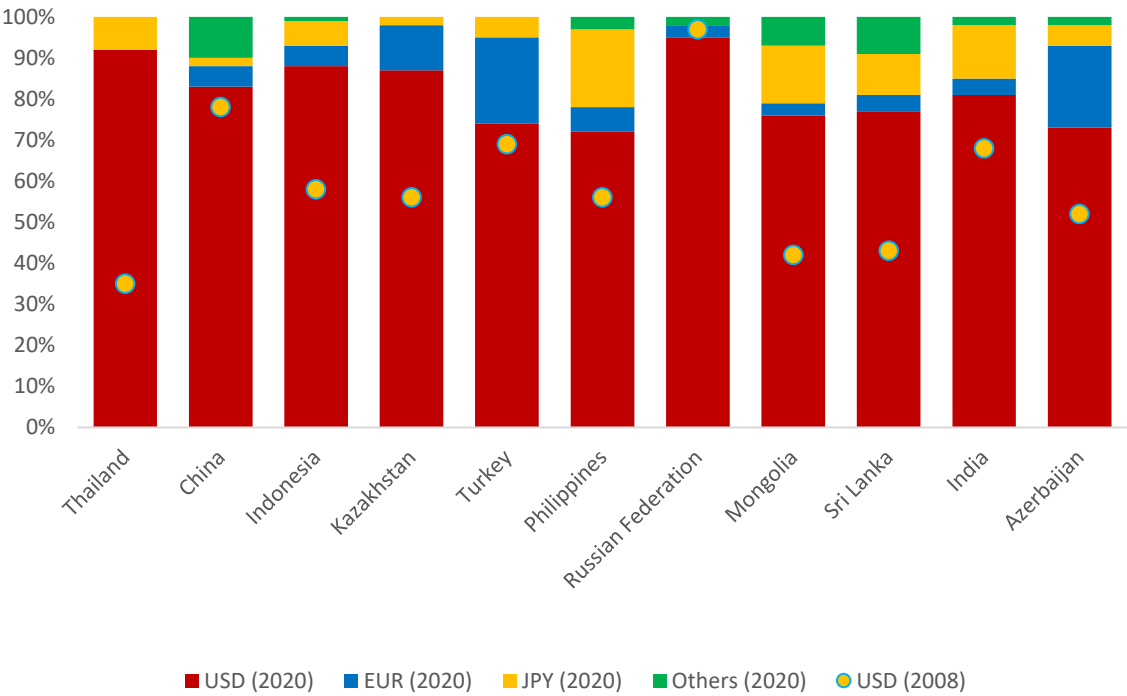Note: only countries with over 10% of external debt to GDP are included.

The share of international sovereign bonds increased notably in many countries, and some had its first international sovereign bond issued

Share of Bond in external debt

Legend: 2020 (dark blue bars) · 2008 (light blue dots)

X-axis categories: Thailand, China, Indonesia, Kazakhstan, Turkey, Philippines, Russian Federation, Mongolia, Sri Lanka, India, Azerbaijan, Armenia, Tajikistan, Lao PDR, Maldives, Uzbekistan, Georgia, Fiji

Major currencies of external debt in 2022

Legend: USD (2020), EUR (2020), JPY (2020), Others (2020), USD (2008)

X-axis categories: Thailand, China, Indonesia, Kazakhstan, Turkey, Philippines, Russian Federation, Mongolia, Sri Lanka, India, Azerbaijan

The share of international sovereign bonds increased notably in many countries, and some had its first international sovereign bond issued in the past decade
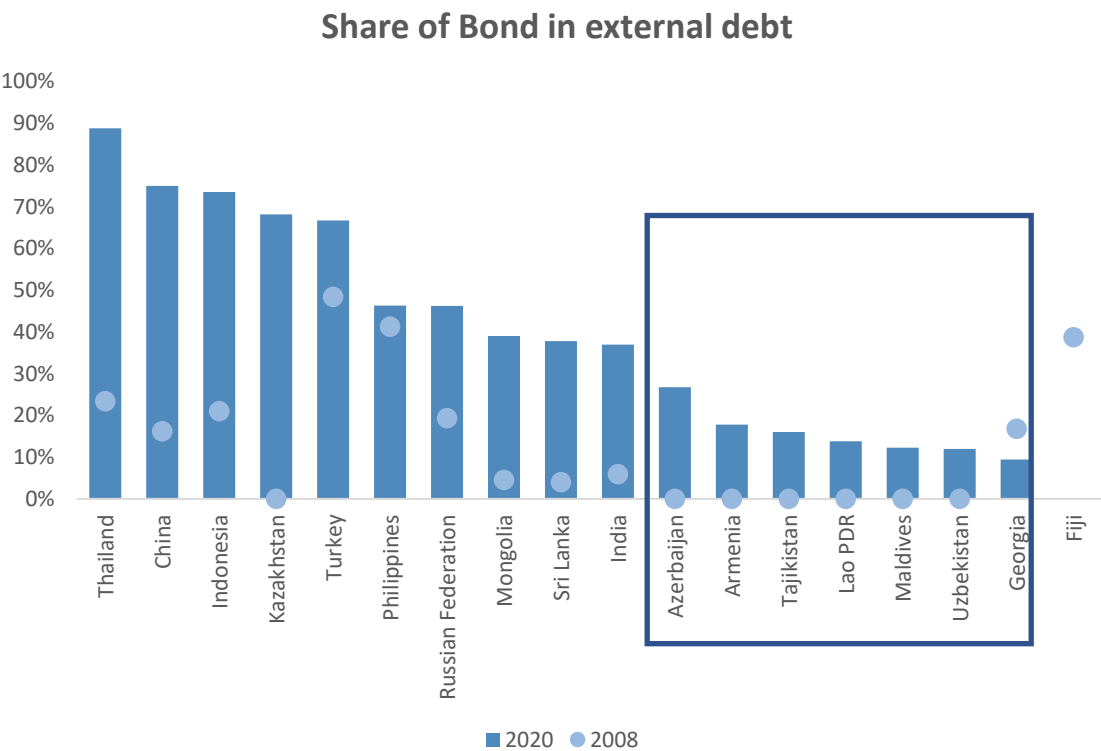
Share of Bond in external debt

■ 2020 ● 2008

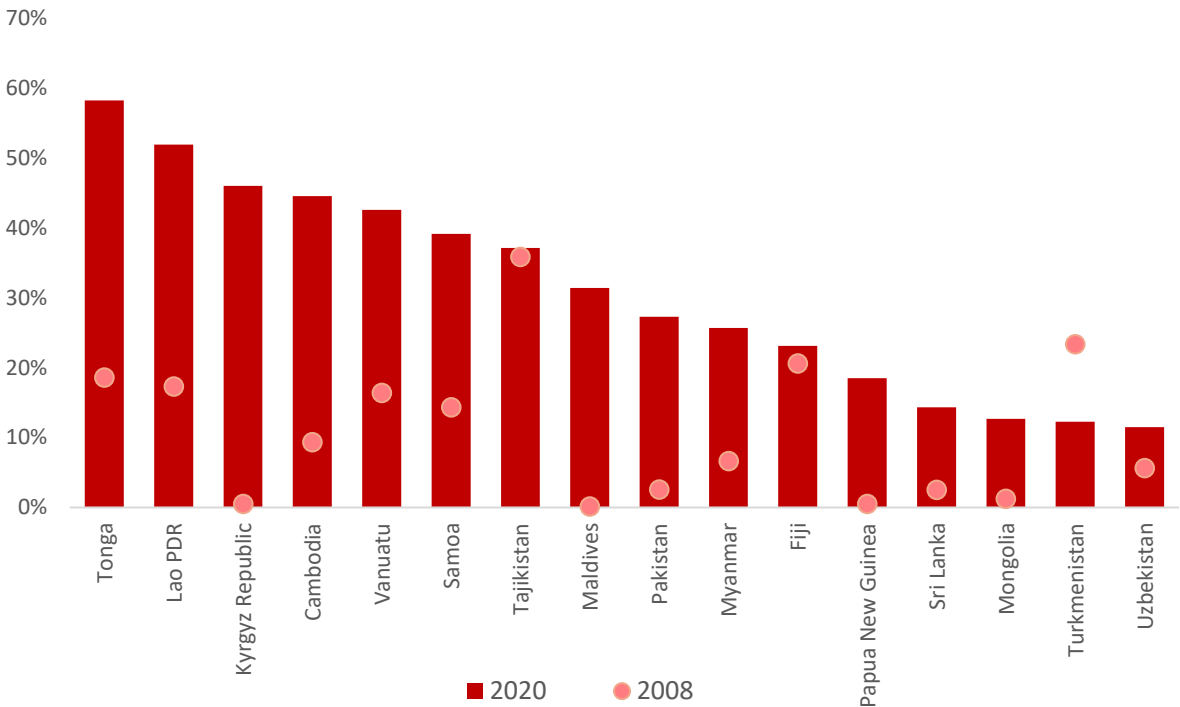*Source*: World Bank, International Debt Statistics, 2020
Notes: Countries are selected with bonds debt > 1% of GDP and bonds share in total debt > 10% in 2008 or 2010.

Country	Year	Currency	Notional in USD	Maturity	Interest rate
Sri Lanka	2007	USD	500 million	5 Years	8.25%
Kazakhstan	2012	USD	500 million	10 Years	N/A
Mongolia	2012	USD	$1.5 billion	10 Years 5 years	5.125%-5.25% 4.125% - 4.25%
Azerbaijan	2012	USD	$4.6 billion	5 Years	5.45%
Laos	2013	THB	$50 million	3 Years	4.5%
Armenia	2013	USD	$700 million	7 Years	6.00%
Maldives	2017	USD	$200 million	5 Years	7.00%
Tajikistan	2017	USD	$500 million	10 Years	7.125%
Papua New Guinea	2018	USD	$500 million	10 Years	8.375%
Uzbekistan	2019	USD	$500 million	5 Years	5.00%

Source: Sri Lanka Department of External Resources, Bloomberg, CNBC, Oxford Business Group, Asian Development Bank (ADB), Reuters, Azatutyun (Armenia Local News), Maldives Ministry of Finance, Financial Times, UNESCAP

China has become one of the main bilateral creditors in the region and many China's loans are denominated in RMB
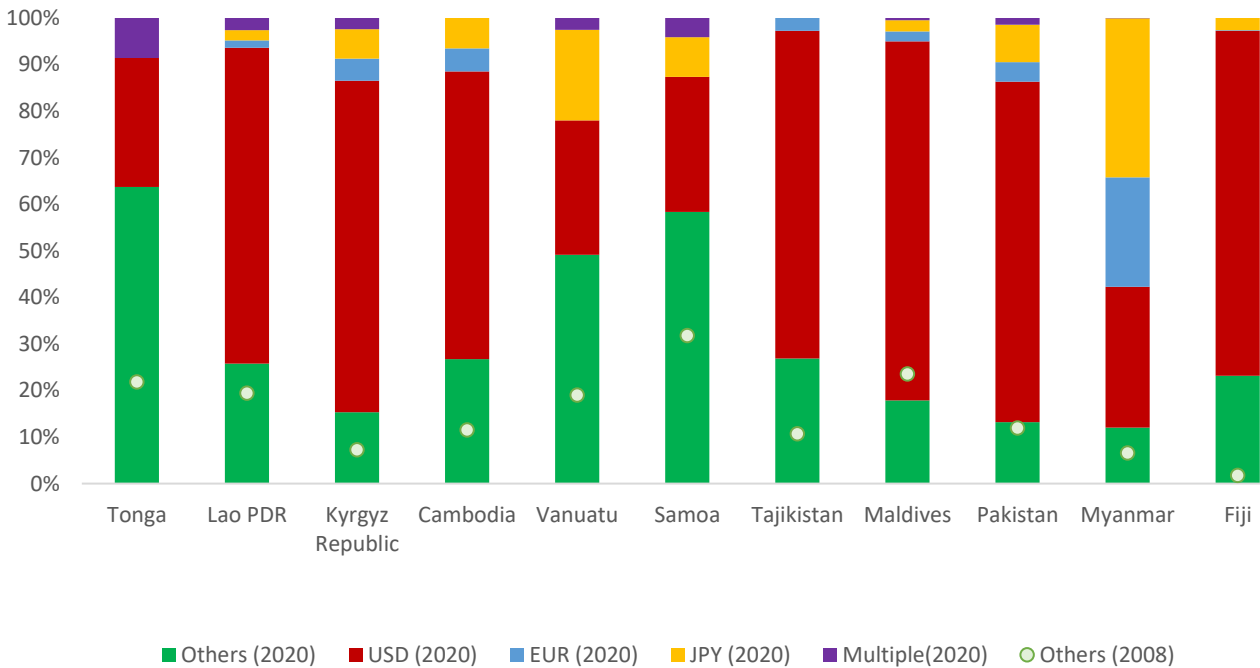
Share of external debt owed to China

Legend: ■ 2020   ● 2008

Major currencies of external debt

Legend: ■ Others (2020)   ■ USD (2020)   ■ EUR (2020)   ■ JPY (2020)   ■ Multiple(2020)   ○ Others (2008)

India has also established itself as one major bilateral creditor in Bhutan and Maldives, and gradually increased its influence in the South and Southwest Asia
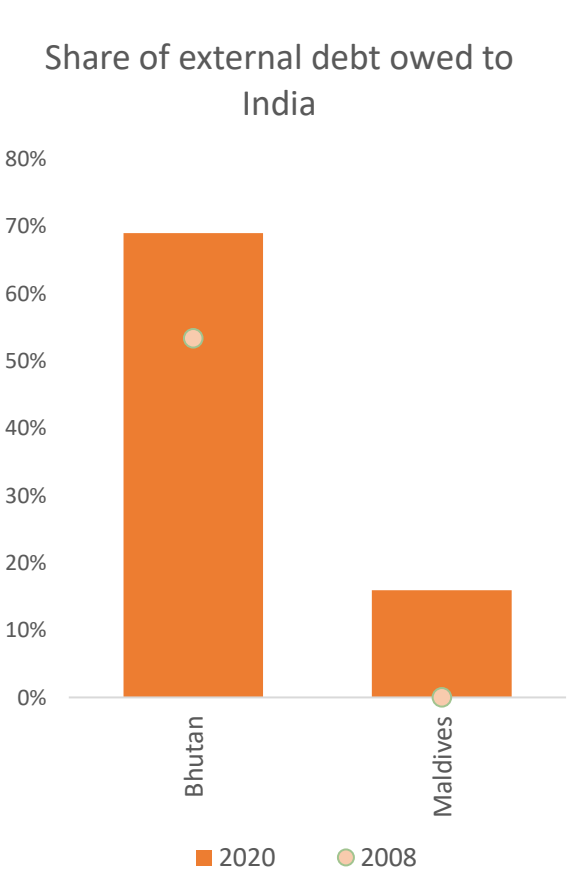
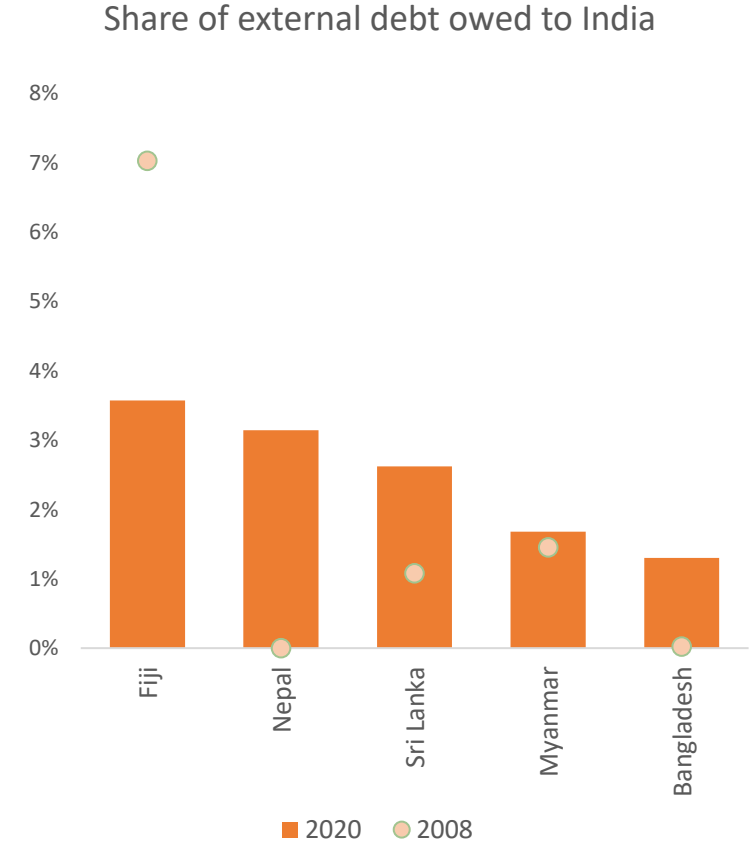
Share of external debt owed to India

Major currencies of external debt

Share of external debt owed to India

Source: World Bank, International Debt Statistics, 2020
Notes: Countries are selected with bonds debt > 1% of GDP and bonds share in total debt > 10% in 2008 or 2010.
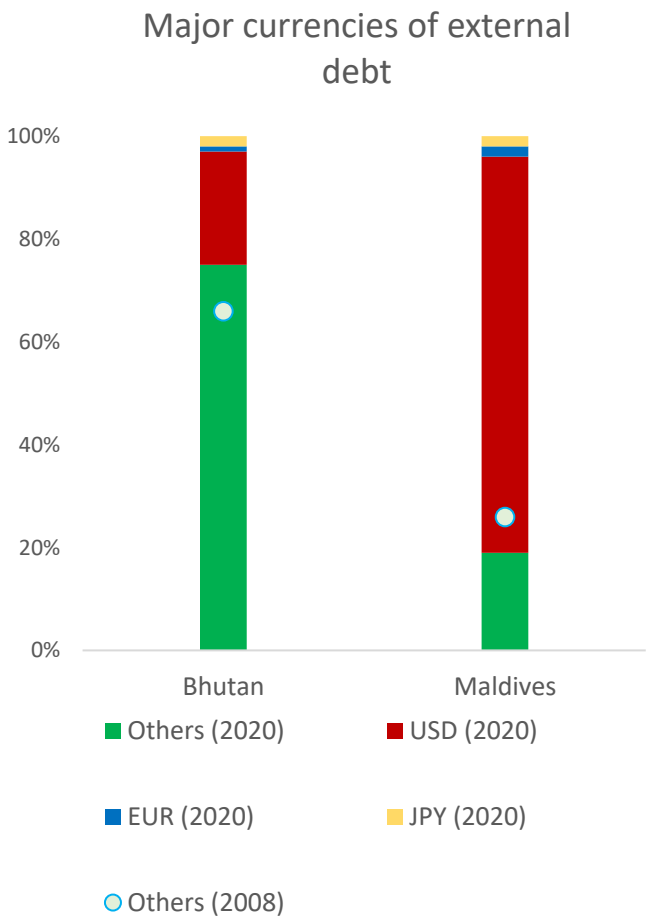
Source: World Bank, International Debt Statistics, 2020

Source: World Bank, International Debt Statistics, 2020
Notes: Countries are selected with bonds debt > 0.1% of GDP and bonds share in total debt > 1% in 2008 or 2010, except for Bhutan and Maldives.
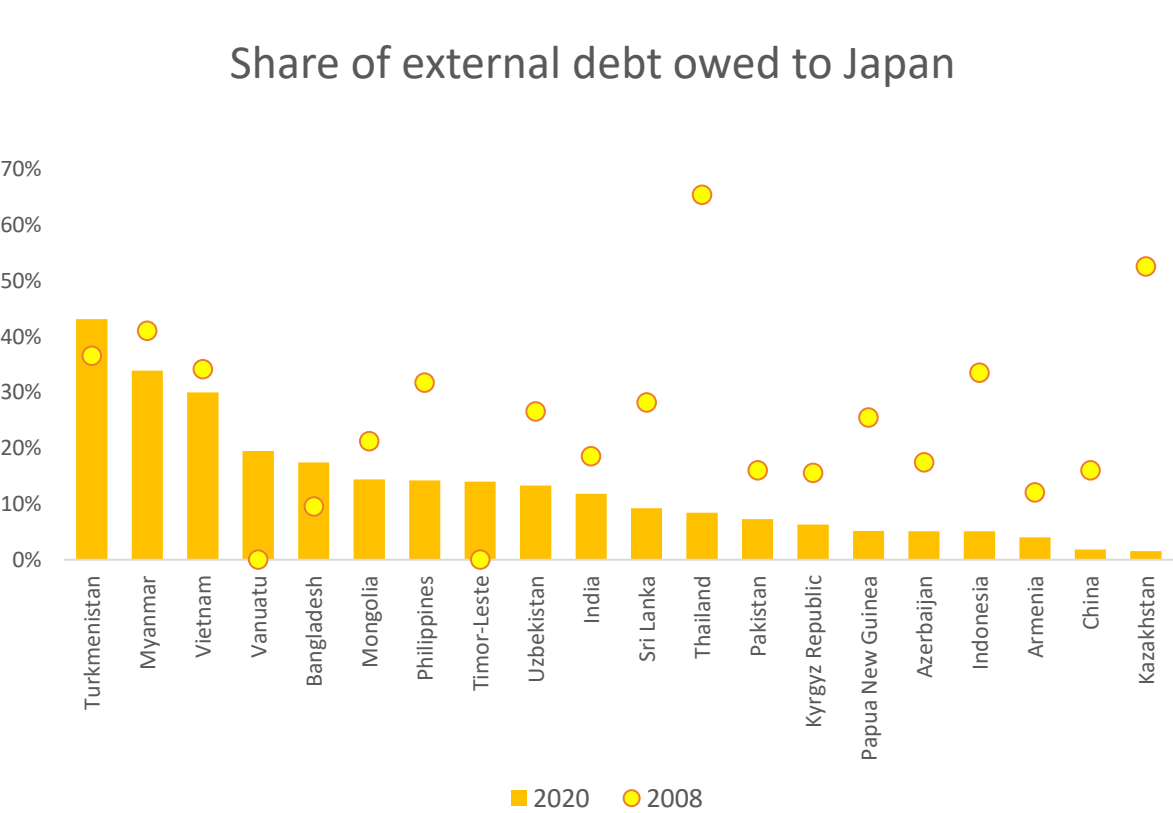
Japan, in contract, despite still being a major bilateral creditor in the region, was seen stepping down in its share of lending in many economies

Share of external debt owed to Japan

Countries (left to right): Turkmenistan, Myanmar, Vietnam, Vanuatu, Bangladesh, Mongolia, Philippines, Timor-Leste, Uzbekistan, India, Sri Lanka, Thailand, Pakistan, Kyrgyz Republic, Papua New Guinea, Azerbaijan, Indonesia, Armenia, China, Kazakhstan

Legend: ■ 2020 ○ 2008

Major Currencies of External Debt

Countries (left to right): Turkmenistan, Myanmar, Vietnam, Vanuatu, Bangladesh, Mongolia, Philippines, Timor-Leste, Uzbekistan, India, Sri Lanka

Legend: ■ JPY (2020) ■ USD (2020) ■ EUR (2020) ■ Others (2020) ○ JPY (2008)

Source: World Bank, International Debt Statistics, 2020
Notes: Countries are selected with Japan's bilateral debt > 1% of GDP and Japan's bilateral share in total debt > 10% in 2008 or 2010. JPY denominated external debt has seen a decline from the maximum of 70% to almost 0% in some countries, as the USD, RMB, and to some extent INR (Rupee), have seen increases in share of external debt.
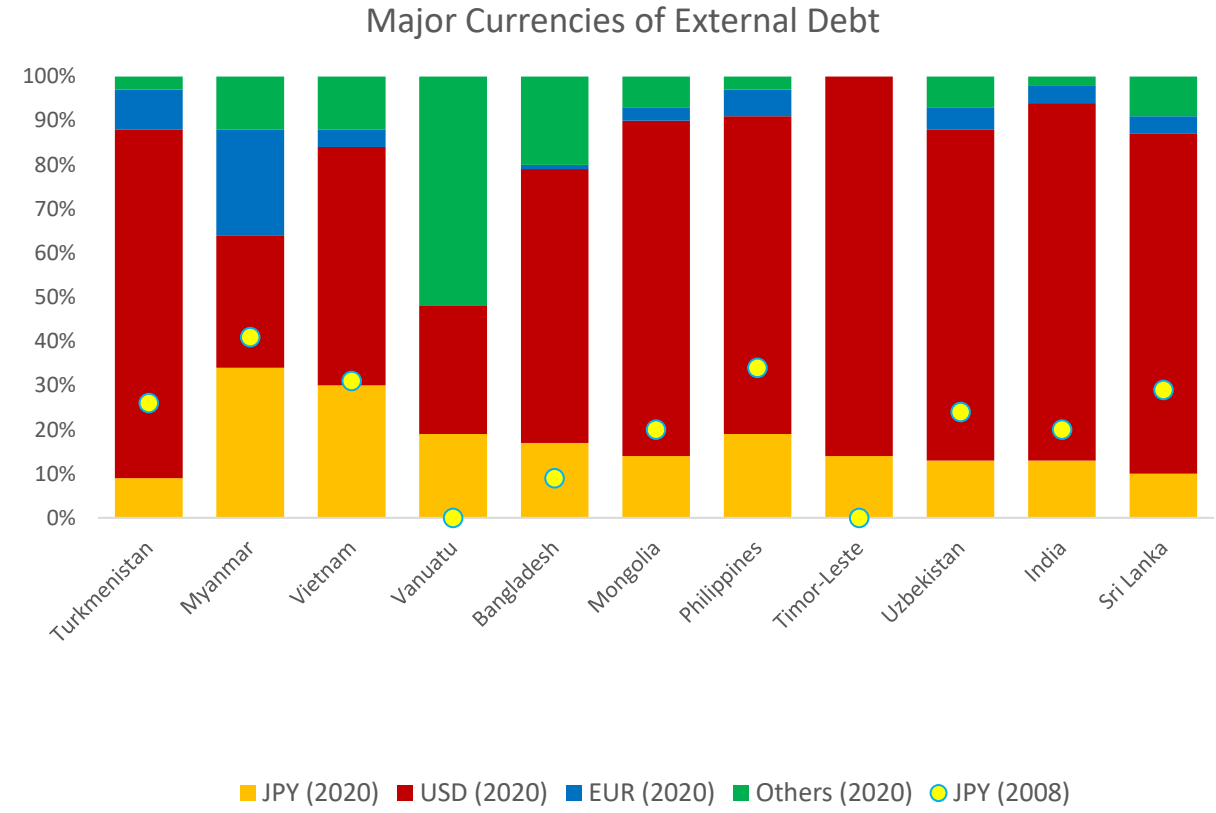
Source: World Bank, International Debt Statistics, 2020
Notes: Only a few countries have most of their debt JPY denominated, while almost all of them have seen major declines from 2008 as the USD and other currencies take more share
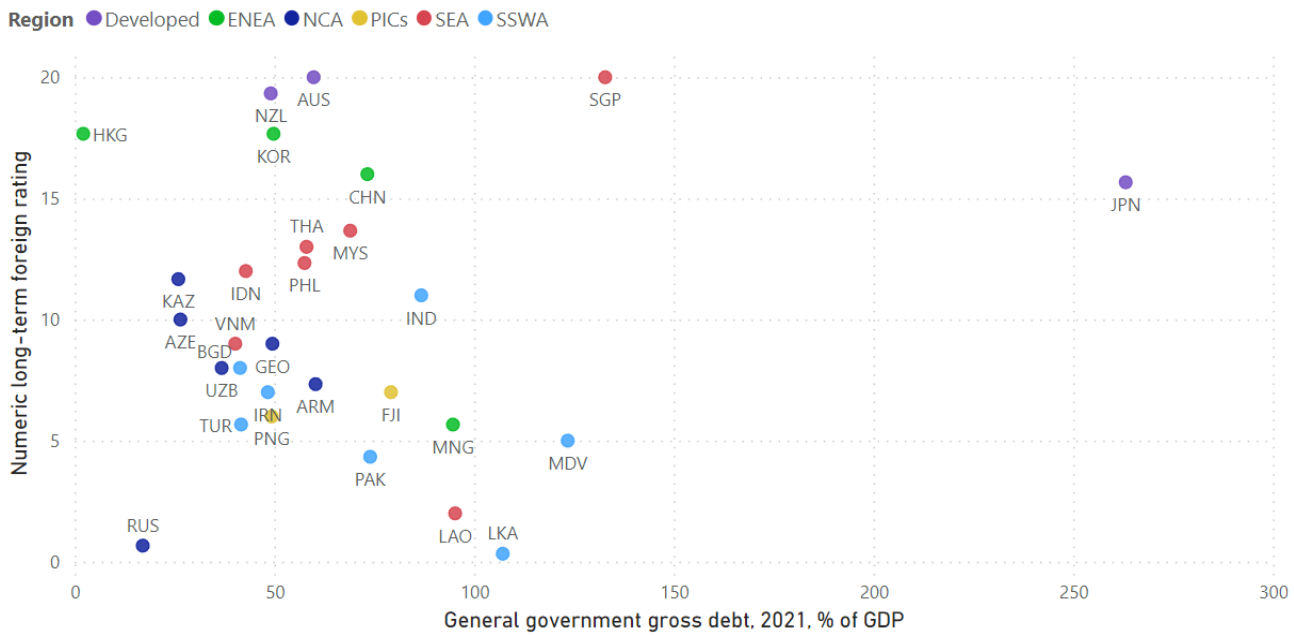
Based on the current methodologies, some economies are already facing high risk of debt distress

Public debt level and DSA risk of debt distress (LIC-DSF)
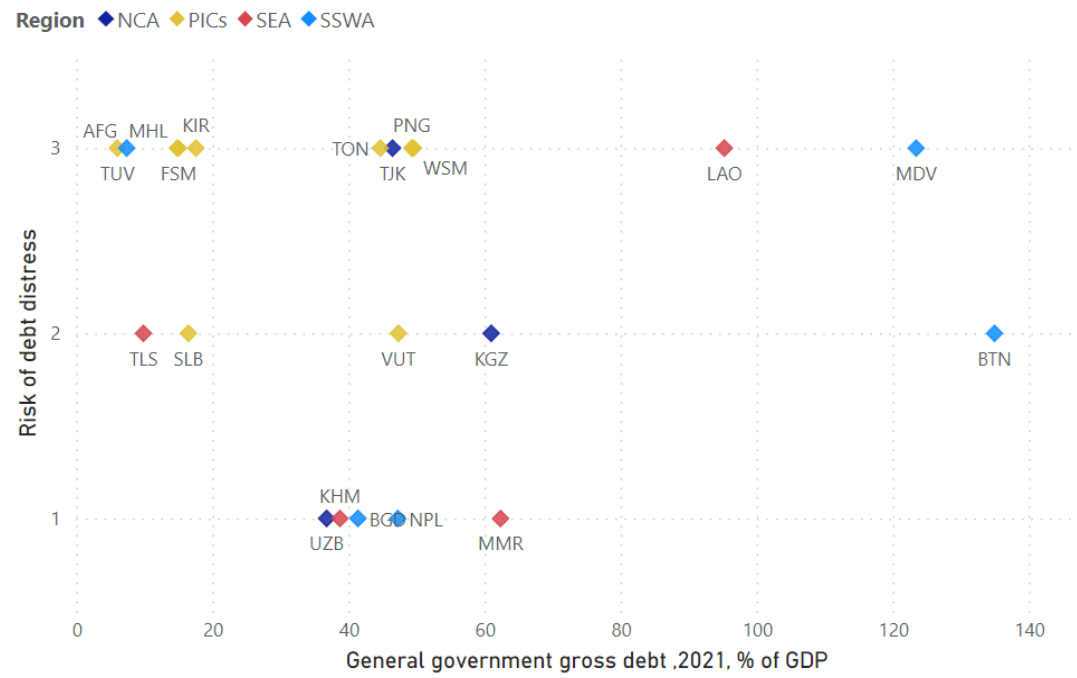
Source: https://www.worldbank.org/en/programs/debt-toolkit/dsa, accessed Oct 2022, IMF WEO
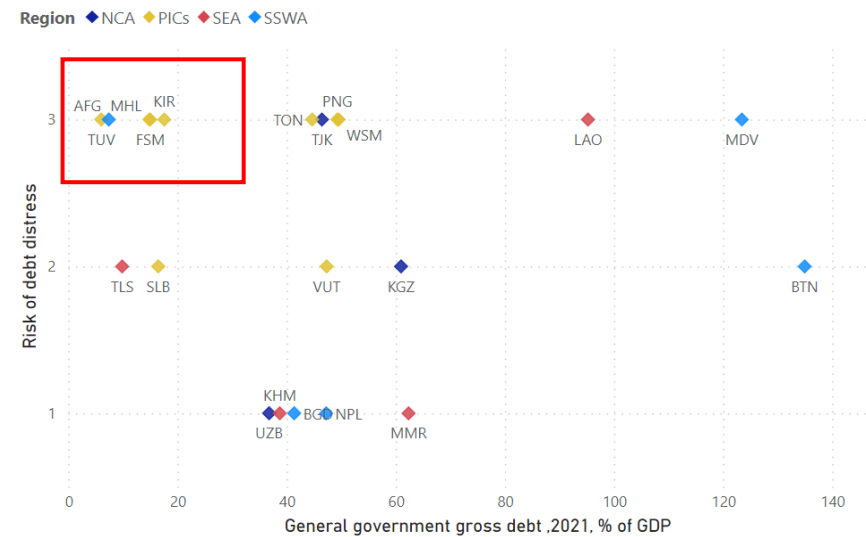Notes: 1= low risk, 2 = medium risk and 3 = high risk

Public debt level and credit rating
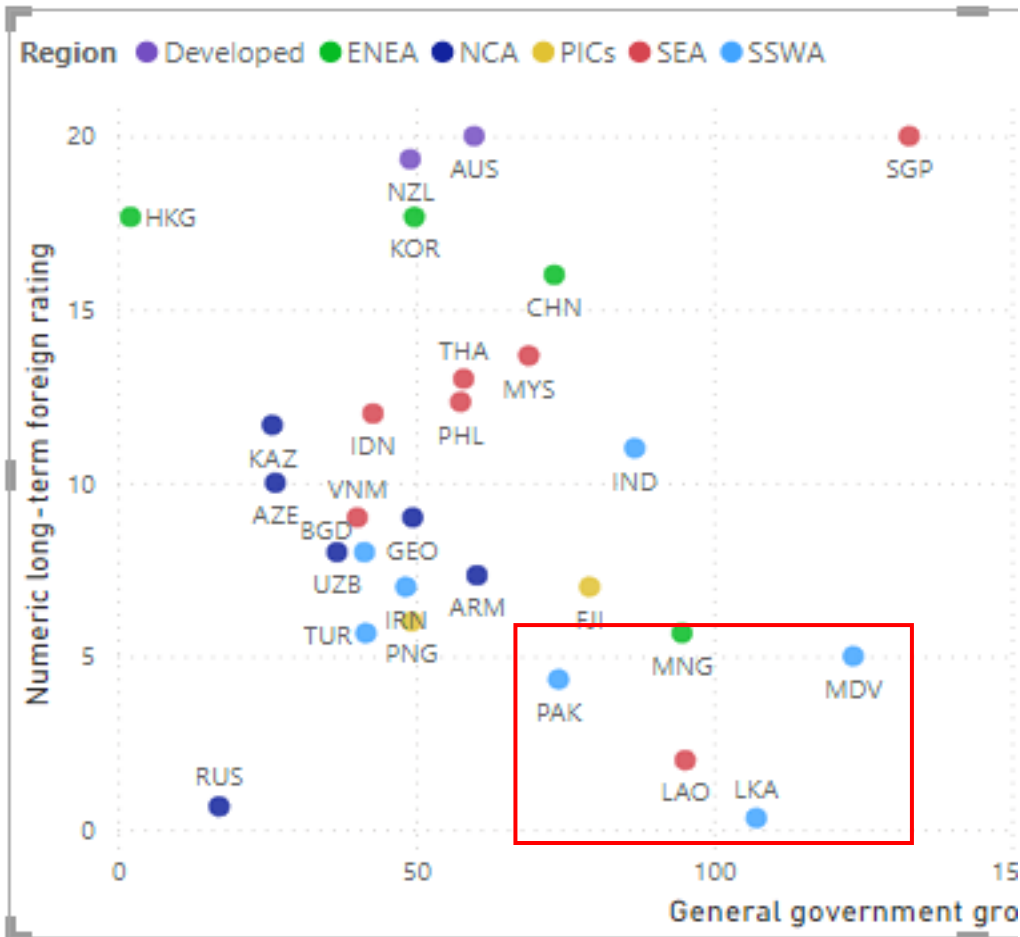
Source: countryeconomy.com, IMF WEO
Notes: The numerical credit rating is the average of long-term foreign rating from Moody's, S&P and Fitch.

Some countries face high risk of debt distress, despite low debt levels due to vulnerabilities in their economies

Public debt level and DSA risk of debt distress (LIC-DSF)

Region ◆ NCA ◆ PICs ◆ SEA ◆ SSWA

General government gross debt ,2021, % of GDP

Public debt level and credit rating

Region ● Developed ● ENEA ● NCA ● PICs ● SEA ● SSWA

General government gross debt, 2021, % of GDP

High Risk Low Debt

PICs

1. Tuvalu
2. Kiribati
3. Micronesia
4. Marshall Islands

SSWA
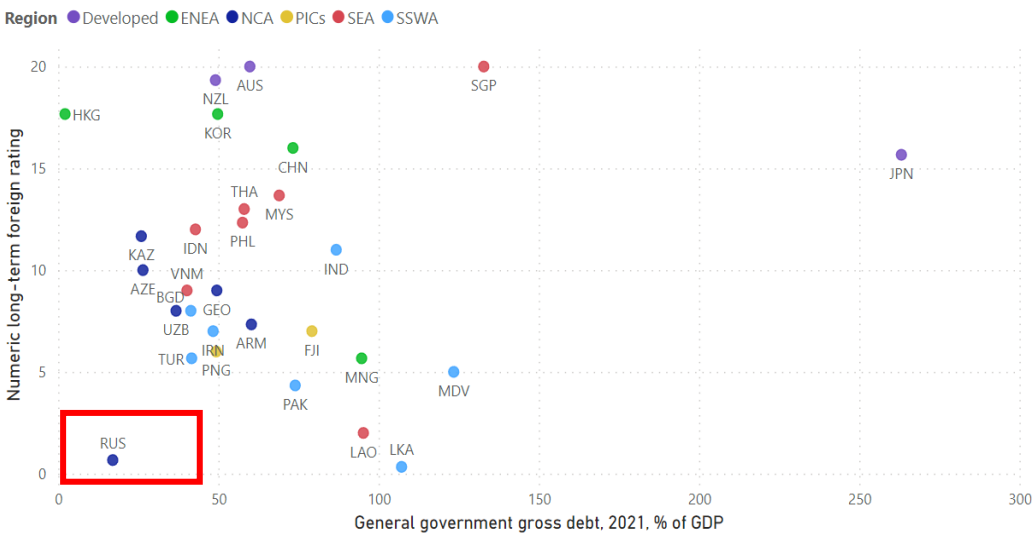
1. Afghanistan

NCA

1. Russia

PICs

- These four Pacific Islands lack economic diversification, are vulnerable to climate change and natural disasters, volatile fishing and tourism revenues
- All countries are reliant on grants

Afghanistan   Russia

- Both countries face conflicts.
- Russia credit rating was downgraded two times after its declaration of war on Ukraine and subsequent economic sanction on Russia
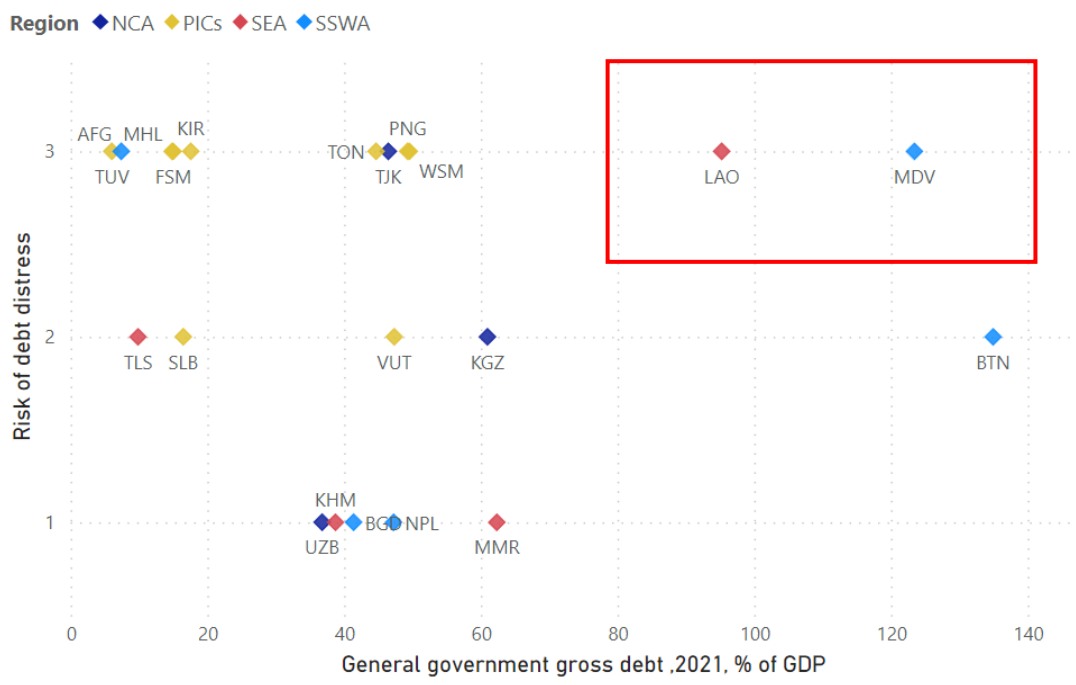
Some economies with higher risk and poorer credit rating have accumulated larger amounts of debt

Public debt level and DSA risk of debt distress (LIC-DSF)

Public debt level and credit rating

High risk High debt

SEA
1. Laos

SSWA
1. Maldives
2. Sri Lanka
3. Pakistan

ENEA
1. Mongolia

These economies also face immediate high external debt service payments in 2022

Major creditors of debt service in 2022

● Principal repayment ● Interest payment

Change in exchange rate against US dollars in Asia-Pacific

Sri Lanka	-78
Laos	-41
Pakistan	-25
Mongolia	-14

-90   -40   10

■ 2021   ■ Jan-Sept 2022

High risk High debt
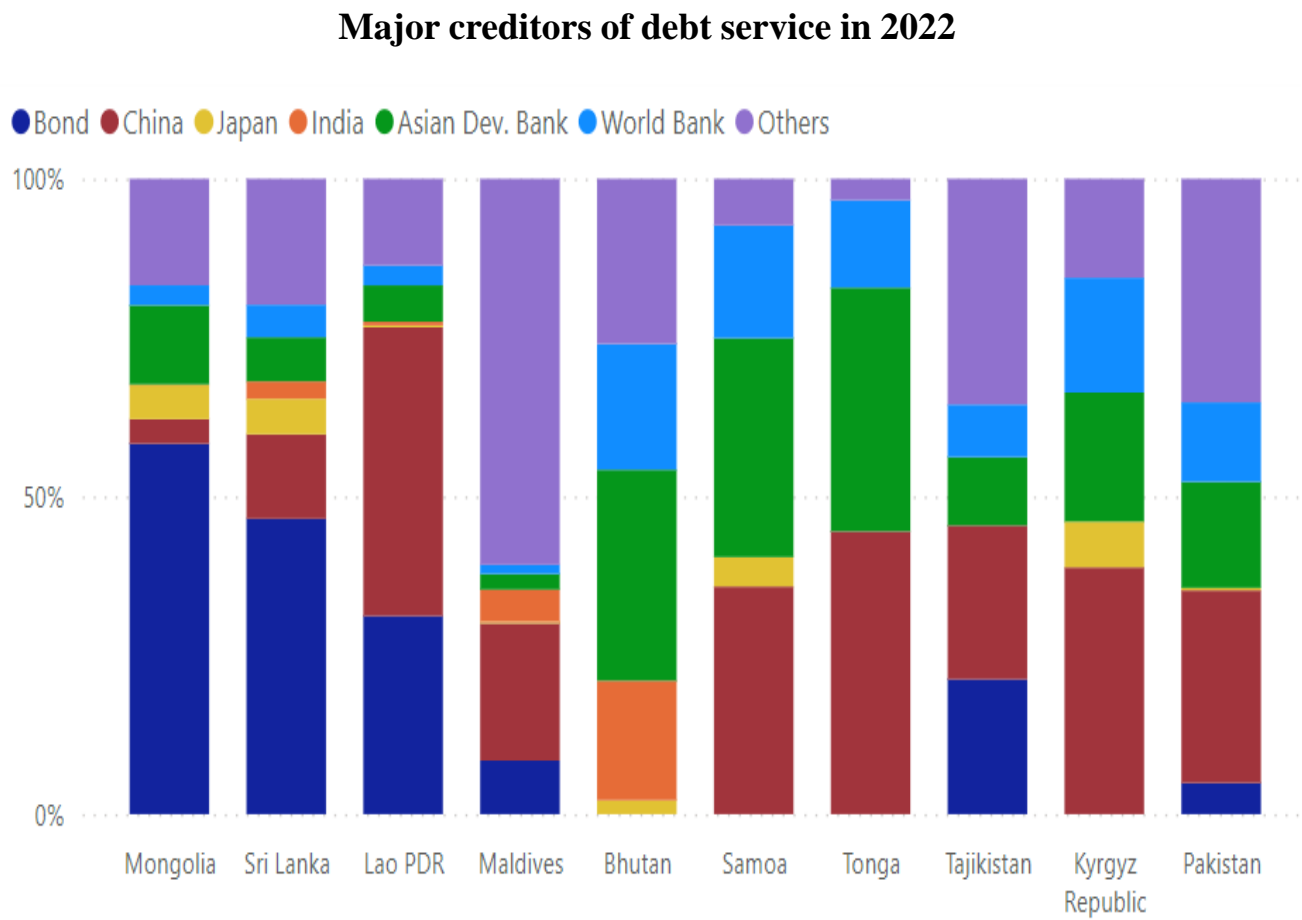
SEA

1. Laos

SSWA

1. Maldives
2. Sri Lanka
3. Pakistan

ENEA
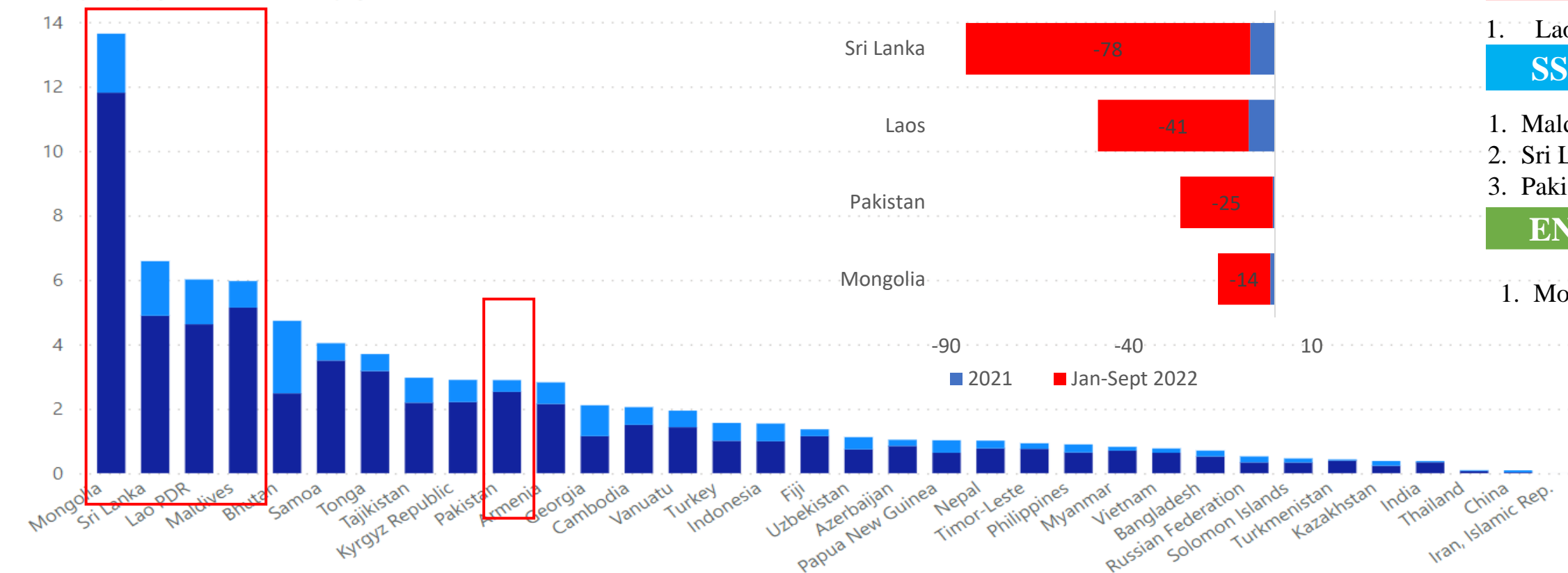
1. Mongolia

Source: World Bank, International Debt Statistics, IMF WEO

Bond holders are major creditors for economies with the highest external debt service payments in 2022. Engaging private creditors is critical in debt restructing.

Major creditors of debt service in 2022

- Bond
- China
- Japan
- India
- Asian Dev. Bank
- World Bank
- Others

Source: World Bank, International Debt Statistics (IDS), IMF WEO

**High risk
High debt**

SEA

1.   Laos

SSWA

1.   Maldives
2.   Sri Lanka
3.   Pakistan

ENEA

1.   Mongolia

Next steps

- Look into the domestic debt from various perspectives, as what has been done for external debt The lack of a comprehensive database on domestic public debt is a challenge.

- Add other dimensions into external debt analysis, particularly on maturity and concessionality

- Go deeper to understand the interaction of different debt elements

- Integrate the discussions on different debt characteristics of economies with their risk of debt distress

- Market data of recent and expected debt performance?

Thank you